

Developments in
**MARKETING SPREADS FOR
AGRICULTURAL PRODUCTS
in 1975**

ABSTRACT

Marketing spreads accounted for three-fourths of last year's increase of 7 percent in the retail cost of a market basket of farm foods. Marketing spreads averaged 9 percent above 1974, chiefly due to higher marketing charges for crop products. Although last year's gain slowed from the record increase of 20 percent in 1974, it was well above the gains of 6 percent in 1973 and 2 percent in 1972. Returns to farmers for food products averaged about 5 percent higher in 1975 than in 1974, mainly because of strong livestock prices. Farmers received an average of 42 cents of each dollar spent by consumers for farm foods in 1975. This was 1 cent less than in 1974, and 4 cents less than the 46-cent share received in 1973, when it was the highest in more than 20 years.

Keywords: Price spreads, food marketing, costs.

PREFACE

Rapid escalations in food prices over the past several years have greatly increased public concern about food costs. A good idea of what has been happening to prices can be obtained by looking at two major components of the food dollar--returns to farmers for food products and the farm-to-retail price spread. Since the mid-1950's Congress has appropriated funds for research specifically for determining price spreads and analyzing food costs. The Economic Research Service develops estimates of retail costs, returns to farmers, and farm-to-retail spreads for a market basket of foods and 65 individual food products. These data are published monthly by the Economic Research Service. This report summarizes price movements for food products at various market levels during 1975.

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SUMMARY

Food prices rose at about half the rate in 1975 compared with the previous 2 years, and for the first time since 1971, they increased slightly less than the general price level. The slowing in food prices last year reflected a sharp downturn in some farm product prices and smaller increases in marketing costs as inflationary pressures subsided throughout the economy. Retail prices made their biggest jump around midyear as meat prices rose in response to smaller supplies of meat. For the year, the retail cost of a market basket of farm foods (excludes imported foods and seafoods) averaged 7 percent higher than for 1974. This compares with an increase of over 9 percent in prices paid by consumers for all goods and services.

Returns to farmers for food products averaged about 5 percent higher in 1975 than in 1974, mainly because of strong livestock prices, particularly for hogs. Returns for most grain-based foods, such as bakery and cereal products and fats and oils, declined substantially reflecting the large harvest of wheat, corn, and soybeans. For all of 1975, the farm value of food products accounted for 42 percent of the retail cost of these foods, compared with 43 percent in 1974.

Most of the increase in food costs last year came from higher marketing charges. The farm-to-retail price spread, a measure of marketing charges, widened 9 percent. This increase was about half as large as the extraordinary large increase in 1974 and was nearly in line with the increase in the general price level. Movements in the price spread tend to parallel changes in the general price level, since many marketing inputs are bought from nonagricultural industries. Costs of some marketing inputs rose at a slower rate in 1975 as inflation moderated throughout the economy, but most prices showed a substantial increase. Prices averaged about 15 percent higher for packaging materials and energy, while labor costs, which account for about half of total food marketing charges, increased around 10 percent--slightly more than in 1974.

As a result of higher prices, consumer expenditures for foods produced on U.S. farms rose nearly \$12 billion in 1975 to an estimated \$159 billion. Returns to farmers for these foods amounted to \$57 billion, about \$1½ billion more than in 1974. The food marketing bill, representing total charges for transporting, processing, and distributing farm foods, amounted to \$102 billion last year, \$10 billion more than in 1974. Most of this increase was in labor, packaging, and transportation costs. Profits earned by firms from marketing farm foods also increased in 1975 as a result of rising food prices and sales, and improved profit rates. Profit rates after taxes of food manufacturers reached a 2-year high in the third quarter of the year when they averaged 3.7 percent of sales and 17.2 percent of stockholder's equity.

A study of the cost components of price spreads for 16 foods showed wide variation in costs among products. Processing costs were found to be less than a fifth of the retail price for meat and poultry products, but around half the retail price of canned tomatoes. Retailing costs were found to be highest for perishable products, averaging about two-fifths of the retail price of fresh oranges and lettuce, about double the overall retail store margin. Among individual cost items, labor is the largest cost of retailing and processing most products, followed by packaging costs.

DEVELOPMENTS IN MARKETING SPREADS FOR AGRICULTURAL PRODUCTS IN 1975

MARKET BASKET STATISTICS

Retail Food Costs

Food prices continued to rise in 1975, but at about half the rate of the 2 previous years (table 1 and fig. 1). The retail cost of a market basket of farm foods rose about 7 percent in 1975, compared with a rise of 14 percent in 1974, and 17 percent in 1973. ^{1/} In 1975, tight supplies of livestock-related foods and sharply increasing farm-retail spreads for processed crop products contributed most to the rise. Per capita food consumption declined about 1 percent in 1975 to the lowest level in 7 years. All of the decline occurred in livestock-related foods.

Retail prices of farm foods were relatively stable during the first 5 months of the year, after climbing steadily during the last half of 1974. However, they increased 2.3 percent in June and another 3.4 percent in July as prices for beef and pork surged to record levels. But for the remainder of the year, prices changed little from the July level despite sharp drops in returns to farmers for meat animals, food grains, and oilseeds.

Retail cost of all food groups, except eggs, averaged higher in 1975 than in 1974. However, there was considerable movement in prices during the year and wide price variations among food products. In general, price increases for livestock products and crop-related products shared the rise in the retail cost, in sharp contrast to 1974 when price increases for crop products contributed most to higher food costs, and 1973 when livestock products contributed most. In 1975, meat prices averaged 9 percent higher than a year earlier, due mainly to sharply higher pork prices. With high feed costs late in 1974, hog producers sharply cut back output during the first half of 1975. Pork output by midyear was 20 percent below a year earlier, causing retail pork prices to rise sharply. In October, retail prices for pork cuts peaked at \$1.59 per pound, 46 percent higher than a year earlier.

The rise in beef prices was more moderate than for pork for the year. Beef prices early in the year were lower than they had been for 2 years. However, they climbed more than a fourth, from \$1.27 per pound in March to \$1.61 in July, as supplies of fed beef dropped sharply. But by December, retail prices for Choice beef had dropped to \$1.51 a pound.

During 1975, prices for most other products also increased. Dairy product prices, which declined during the first half of the year, turned up sharply in the last few months of the year as supplies of milk dropped below year earlier levels. Butter prices shot up to \$1.25 per pound in December, about 30

^{1/} These data are based on an index of retail prices of domestically produced farm foods, a component of the Consumer Price Index published by the Bureau of Labor Statistics. The CPI for all food, which includes imported foods, seafoods and restaurant meals, rose about 8½ percent in 1975.

Table 1 .--The market basket of farm foods: Retail cost, farm value, farm-retail spread, and farmer's share of the retail cost 1/

Year and quarter	Retail cost	Farm value	Farm-retail spread	Farmer's share
	<u>1967 = 100</u>			<u>Percent</u>
1965	96.0	99.2	93.9	40
1966	101.0	106.3	97.8	41
1967	100.0	100.0	100.0	39
1968	103.6	105.3	102.5	39
1969	109.1	114.8	105.5	41
1970	113.7	114.1	113.4	39
1971	115.7	114.4	116.5	38
1972	121.3	125.1	118.9	40
1973	142.3	167.2	126.5	46
1974	161.9	178.4	151.4	43
1975 <u>2/</u>	173.6	186.8	165.3	42
<u>1973</u>				
I	130.8	149.3	119.1	44
II	138.5	160.5	124.6	45
III	148.4	186.2	124.4	49
IV	151.3	172.7	137.7	44
<u>1974</u>				
I	159.2	185.9	142.2	45
II	160.2	169.0	154.6	41
III	162.0	177.3	152.3	42
IV	166.3	181.4	156.7	42
<u>1975</u>				
I	168.8	172.9	166.3	40
II	170.1	182.5	162.2	42
III	177.6	199.9	163.5	44
IV	177.9	191.8	169.2	42

1/ The market basket contains the average quantities of domestic, farm-originated food products purchased annually per household in 1960 and 1961 by wage-earners and clerical worker families and workers living alone. Its retail cost is calculated from retail prices published by the Bureau of Labor Statistics. The farm value is the gross return to farmers for the farm products equivalent to foods in the market basket. The farm-retail spread--difference between the retail cost and farm value--is an estimate of the total gross margin received by marketing firms for assembling, processing, transporting, and distributing the products in the market basket. Indexes may be converted to dollar totals by multiplying by the following amounts for 1967; retail cost, \$1,080.64; farm value, \$419.07; and farm-retail spread, \$661.57. Quarterly data are annual rates. 2/ Preliminary.

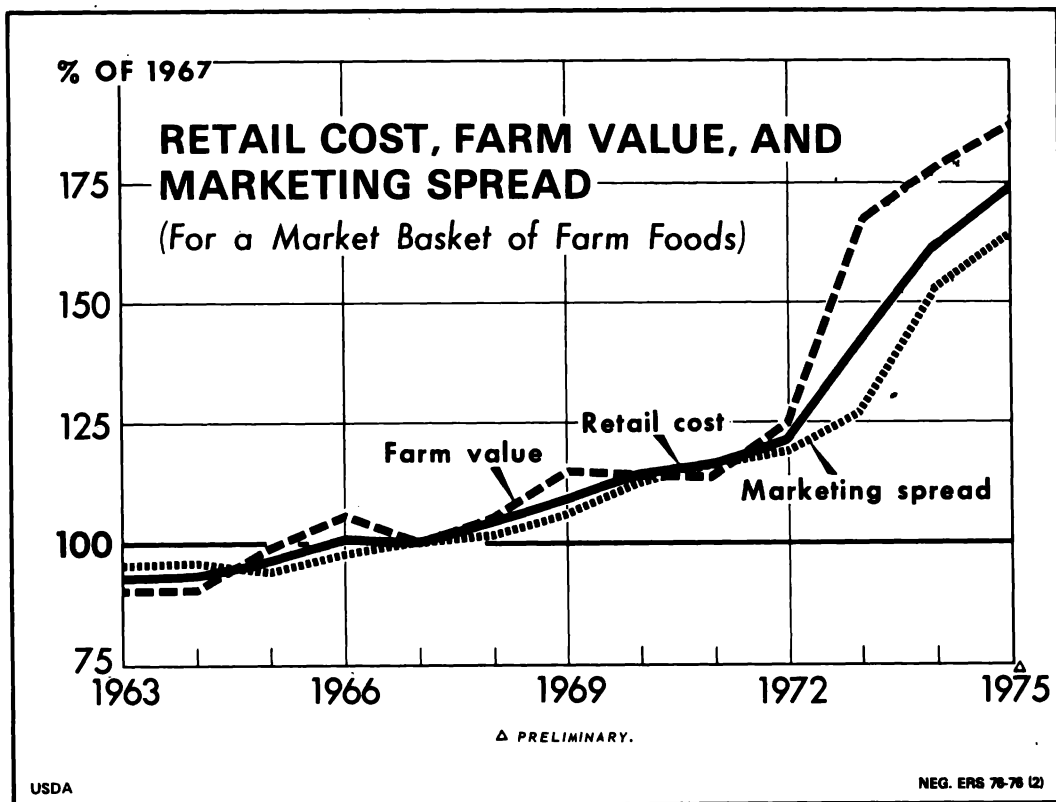


Figure 1

cents higher than a year earlier and cheese prices increased almost as much. Prices for poultry products jumped 10 percent in 1975 as consumers substituted poultry meat for higher priced red meats. Sharply higher prices for processed crop products accounted for around half of the increase in the retail cost of market basket foods. Processed fruits and vegetables were up 13 percent, bakery and cereal products rose 10 percent, and fats and oils products increased 8 percent.

Food prices last year rose less than the average for all consumer goods and services for the first time in 4 years. But, since 1967 the retail cost of the market basket of farm foods has risen 74 percent, compared with an increase of 57 percent in the Consumer Price Index for all goods and services, excluding food.

Farm Value

Returns to farmers for food commodities were quite variable in 1975 in response to changing supply conditions, particularly for pork, oilseeds, and grain products. Lower prices for soybeans and other oilseeds dropped the farm value of fats and oils used in margarine and other oil products nearly 25 percent from the record level in 1974. Similarly, the farm value of bakery and cereal products averaged 18 percent lower in 1975, reflecting lower wheat and sugar prices.

In contrast to lower returns for most crop products, the farm value of meat products and poultry averaged about 16 percent higher last year than for 1974. With high feed costs and relatively low product prices late in 1974, hog and poultry producers sharply cut back output during the first half of 1975. As meat output fell, prices rose sharply during late spring and summer, causing a major share of the mid-year bulge in average food prices. After reaching a high of \$61 per hundredweight in September, hog prices dropped sharply to \$48 in December. But for the year, the farm value of pork averaged nearly 43 percent above 1974. Farm value of Choice beef also declined in the fall but averaged 8 percent higher than a year earlier. Since higher farm values of meat were accompanied by lower farm values for crop products, the overall farm value of all foods in the market basket averaged only 5 percent higher in 1975 than in 1974. This increase accounted for about a fourth of the increase in the retail cost of the market basket last year.

Farmers received an average of 42 cents of each dollar spent by consumers for market basket foods in 1975. This was 1 cent less than a year earlier, and 4 cents less than the 46-cent share received in 1973, when the farmer's share was the highest in more than 20 years. Since 1973, the farmer's share has averaged slightly higher than in the 1960's when it ranged from 37 to 41 cents (fig. 2).

The farmer's share of the food dollar differs greatly among food products. For example, it is less than 25 percent of the retail cost of the more highly manufactured products such as corn flakes, canned tomatoes, canned spaghetti, frozen french fried potatoes, and bread. On the other hand, the farm share

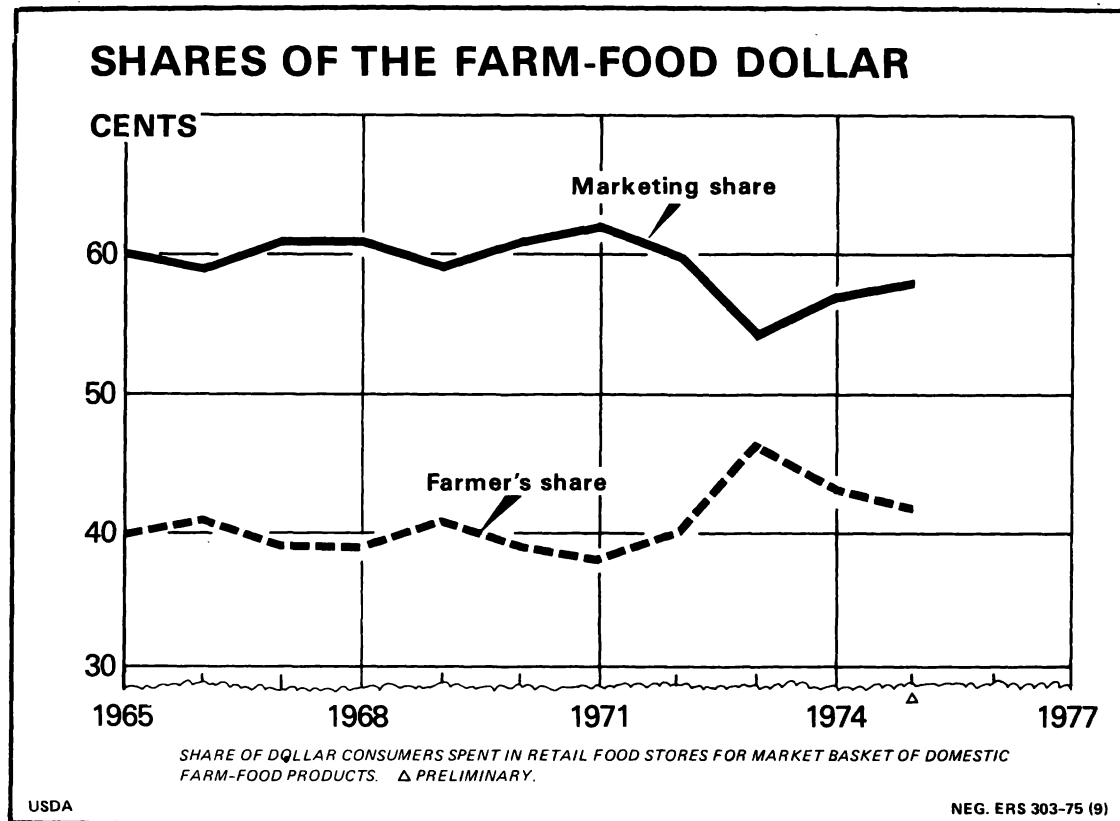


Figure 2

accounts for 50 to 70 percent of the retail cost for most animal products such as beef, butter, eggs, and chicken. The wide variation in the farm share is largely due to differences in the amount of resources used in production and the amount of processing and other marketing services performed before a product reaches the consumer. Eggs, for example, reach the kitchen in the same form as they left the farm. In contrast, the flour in bread must be milled from wheat, combined with other ingredients, and then baked, sliced, and wrapped before it is ready for sale.

Farm-Retail Spread

The farm-retail spread is the difference between an average retail price per unit sold and the farm value of the equivalent quantity sold by farmers less the value of any byproducts. Thus, over a period of time, the farm-retail spread is a measure of the change in marketing charges for assembling, transporting, processing, and distribution. Each activity involves expenditures for labor, energy, capital, taxes, and depreciation of fixed assets. All such costs, plus profits earned by firms, are represented by price spreads. Long-term changes in price spreads generally reflect changes in these costs and profits. Short-term changes are often associated with the larger changes in prices at the farm level than at retail--particularly for foods which are not highly processed such as livestock products and fresh fruits and vegetables.

Price spreads widened at a more moderate rate in 1975 than the record rate of 1974, but the rate was very high by any other historical standard. The overall increase for 1975 was 9-percent, compared with a 20-percent increase in 1974. Price spreads for most food groups widened in 1975, but were much greater for crop products than for meat and other animal products. The marketing spread increased 35-percent for fats and oils products, 19-percent for bakery and cereal products, and 13-percent for processed fruits and vegetables. Price spreads for meat averaged only 1-percent higher last year than in 1974 although they widened significantly near the end of the year.

Spreads Widen As Farm Prices Weaken--Farm-retail spreads for market basket foods seesawed in the first half of 1975, then moved up sharply in the last half. At the beginning of the year they were at record levels but decreased substantially in the second quarter, mainly because live animal prices advanced faster than retail prices for beef and pork. However, partially offsetting were rapidly rising spreads for crop products, particularly bakery and cereal and oilseed products. Returns to farmers for ingredients going into these products dropped in each of the first 6 months of last year, but retail prices only began to show slight decreases in April and May. As a result, farm-retail spreads for crop products widened sharply in the first half of the year.

In the third quarter, farm-retail spreads rose sharply, just about regaining the drop in the previous quarter. The increase mainly resulted from much wider spreads for beef and pork. Spreads for bakery and cereals and oilseed products dropped as farm values rallied after the announcement of the grain sale to Russia.

With record grain harvests and rising production of meat and most other livestock products, prices of many goods sold by farmers fell in the fourth quarter of 1975. However, there was not a corresponding change in retail prices, and where retail price reductions were posted, they were generally smaller than the farm price declines. For the market basket of all farm foods, the retail cost rose about 1.5 percent from September to December. During the same period, the farm value of these foods fell nearly 7 percent. The difference between the farm and retail values--the farm-retail price spread--thus widened sharply, by nearly 8 percent in only 4 months. Spreads widened most for pork, as hog prices dipped sharply, bakery and cereal products, and fats and oils products.

These price lags between farm and retail were partly a reflection of the fact that the basic commodities require considerable processing before entering the production of bakery and cereal products and fats and oils. In addition, processor's may purchase ingredients through contracts entered several months before the decline in prices last fall. Another reason for the absence of a direct response of bakery and cereal prices and fats and oils prices to changes in commodity prices is that the farm value of ingredients represents only a small proportion of the retail cost.

Input Costs Rise--Longrun changes in farm-retail spreads reflect changes in costs and profits incurred by marketing firms (fig. 3). Reflecting inflation in the general economy during the past 2 years, there were big increases in costs of packaging, transportation, energy, labor, and most other inputs used by food marketing firms. However, price increases for some slowed in 1975 as inflation eased.

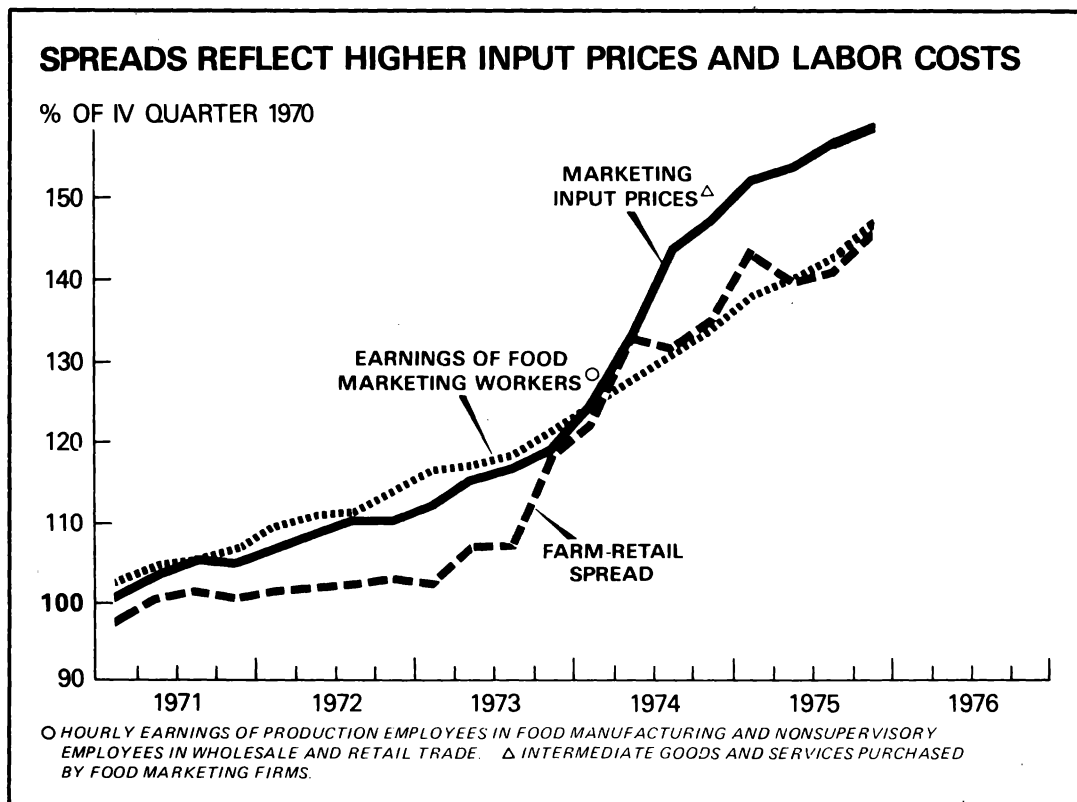


Figure 3

Prices for intermediate goods and services purchased by food marketing firms rose 13 percent in 1975, compared with 19 percent in 1974. Packaging materials, which account for an eighth of total marketing costs, rose 15 percent in 1975, compared with 23 percent in 1974. Energy costs--which rose an unprecedented 46 percent in 1974--slowed to 17 percent in 1975. Short term interest rates dropped to 8.3 percent by fourth quarter 1975, compared with 11.6 percent a year earlier. And the cost of shipping food products by rail increased 13 percent in 1975, only slightly less than the increase in 1974. Labor costs, the biggest expense for food marketing firms, accelerated last year. Hourly earnings of food marketing employees increased about 10 percent in 1975, up from the year-earlier increase of 9 percent, and an annual average increase of a little over 6 percent in the early 1970's (table 2).

Profits Up--Profits of leading food chains have increased from the low level of 1972, particularly if adjustments are made to account for the reduction in reported profits due to several chains switching from the first-in-first-out (FIFO) to last-in-first-out (LIFO) inventory method. Because of the low profit levels of the Atlantic & Pacific Tea Company (A&P) food chain in recent years, average profit rates of leading chains are much larger but show a smaller increase if A&P is not included in the average (table 3).

Between 1972 and 1974, after-tax profits of 14 leading food chains, (excluding A&P) increased from 0.77 percent of sales to 0.89 percent, and from 8.4 percent of stockholder's equity to 11.1 percent. However, three of these companies switched to the LIFO inventory method in 1974, which reduced reported profit margins. If the switch had not been made, profits of the 14 chains would have averaged almost 1.1 percent of sales in 1974, and 12.8 percent of stockholder's equity, which are fairly comparable to historical levels. Food chain profit margins showed little change in the first 9 months of last year over 1974, but A&P's abandonment of its WEO discount pricing program probably reduced competitive pressure on profit margins in the industry, since a recent Federal Trade Commission (FTC) study showed that stores competing with A&P earned a substantially lower return on equity than those in noncompeting areas.

Profit margins of food manufacturing companies rose in 1975, due in part to lower raw material costs. These margins, as reported by the FTC, averaged 3.2 percent of sales in the first 9 months of 1975, compared with 2.9 percent for the same period in 1974, and returns on stockholder's equity rose from 13.6 percent to 14.4 percent. In the third quarter of 1975, margins surged to a 2-year quarterly high, and averaged 3.7 percent of sales and 17.2 percent of stockholder's equity.

Some bread manufacturers and makers of cereal and flour products especially benefited from lower prices for sugar and some other raw materials. Wholesale sugar prices plunged from around 67 cents a pound in late 1974, to 15 cents last fall. Soybean oil prices per pound dropped from 41 cents in the fall of 1974 to around 16 cents by the end of 1975. Flour prices went from 11 cents per pound in October 1974 to less than 9 cents in the spring of 1975, before the announcement of wheat sales to Russia spurred temporary price increases in late summer.

Table 2.--Prices of inputs bought by food marketing firms, annual 1970-75, quarterly 1975

Year and quarter	Intermediate goods and services <u>1/</u>				
	Goods				
	Total	Total	Containers and packaging materials	Fuel, power, and light	Services <u>2/</u>
			1967 = 100		
1970	113	108	108	108	120
1971	120	113	113	120	129
1972	126	118	117	126	138
1973	134	125	123	138	145
1974	159	161	151	202	157
1975p	180	188	174	237	172
<u>1975</u>					
I	176	182	173	231	167
II	178	184	174	237	170
III	181	186	174	238	174
IV	184	190	176	241	176
Year and quarter	Hourly <u>3/</u> earnings of employees	Railroad freight rates <u>4/</u>	New plant and equipment <u>5/</u>	Interest rates <u>6/</u>	Bond yields <u>7/</u>
	Dollars	1969=100	1972=100	Percent	Percent
1970	3.03	109	91	8.48	8.04
1971	3.24	122	96	6.32	7.39
1972	3.45	126	100	5.82	7.21
1973	3.66	129	104	8.30	7.44
1974	3.99	149	116	11.28	8.57
1975p	4.40	169	132	8.65	8.83
<u>1975</u>					
I	4.27	157	130	9.94	8.71
II	4.34	163	132	8.16	8.87
III	4.43	175	133	8.22	8.91
IV	4.55	179	135	8.29	8.81

1/ Represents all goods except raw materials and plant and equipment, and all services except those performed by employees, calculated from wholesale price relatives. 2/ Rent, property insurance & maintenance, telephone, etc. 3/ Weighted composite of production employees in food manufacturing and non-supervisory employees in wholesale and retail trade, calculated from data of the Dept. of Labor. 4/ For food products compiled from data of the Dept. of Labor. 5/ GNP implicit price deflator for investment in nonresidential structures and producer's durable equipment, Dept. of Commerce. 6/ Bank rates on short-term business loans in 35 centers, Dept. of Commerce. 7/ Aaa corporate bonds; Moody's Investor Service. These yields are indicative of the cost of current long-term borrowings. p = Preliminary.

Table 3.--Profit rates after Federal income taxes of food retailers and manufacturers

Period	Food retailers <u>1/</u> 15 leading firms	Excluding A&P	Food manufacturers <u>2/</u>	9 meat packing firms <u>3/</u>	All manufacturing industries <u>2/</u>
<u>Profits as percentage of stockholder equity</u>					
1970	10.6	11.7	10.8	--	9.3
1971	9.6	11.7	11.0	--	9.7
1972	5.1	8.4	11.2	7.7	10.6
1973	8.2	9.6	12.8	10.0	12.8
1974	4.8	11.1	13.9	11.6	14.9
<u>1974</u>					
I	-	-	12.4	-	14.3
II	-	-	12.8	-	16.7
III	-	-	15.4	-	15.4
IV	-	-	14.7	-	13.2
<u>1975</u>					
I	-	-	10.7	-	9.0
II	-	-	15.0	-	11.9
III	-	-	17.2	-	12.4
IV					
<u>Profits as a percentage of sales</u>					
1970	1.04	1.08	2.5	--	4.0
1971 .....	.94	1.09	2.6	--	4.1
1972 .....	.47	.77	2.6	0.9	4.3
1973 .....	.73	.85	2.6	1.0	4.7
1974	<u>4/</u> .37	.89	2.9	1.2	5.5
<u>1974</u>					
I .....	.84	.88	2.7	1.2	5.6
II .....	.74	.77	2.7	1.0	6.0
III	1.03	1.17	3.2	1.3	5.7
IV .....	.61	.65	3.0	1.4	4.8
<u>1975</u>					
I	-1.00	.83	2.4	1.0	3.7
II .....	.67	.85	3.3	1.3	4.7
III .....	.86	.93	3.7	0.9	4.9
IV				1.6	

1/ Compiled from "Moody's Industrial Manual." Two series are shown because of the low profit levels of A&P in recent years and the substantial loss incurred in 1974 due to the establishment of reserve to cover expected losses from its planned closings of stores.

2/ Compiled from "Quarterly Financial Report for Manufacturing Corporations" published by the Federal Trade Commission. Data since the fourth quarter of 1973 are imperfectly comparable with prior data because of changes in accounting methods.

3/ Compiled from Moody's Industrial Manual.

4/ The profit rate for 1974 based on annual data is much lower than the average of the four 1974 quarters mainly because A&P's fiscal year closes in February and its final quarterly report for the year is classified in the first quarter of 1975.

Spreads Up Sharply Since Mid-1973--During the past 5 years, the retail cost of farm foods rose \$708, or almost 60 percent. Higher returns to farmers for food commodities and wider marketing spreads contributed about equally to the rise (fig. 4). Wage and price controls, initiated in August 1971, tended to hold increases in marketing spreads in check until mid-1973 but returns to farmers for food products increased substantially as a result of shortages and strong demand. Higher farm returns accounted for four-fifths of the increase in retail costs from 1971 to mid-1973. Since mid-1973, price spreads have widened about 36 percent, with the bulk of the increase occurring in 1974 when costs of marketing inputs showed sharp increases. Since mid-1973, wider farm retail spreads have accounted for two-thirds of the rise in retail food costs. Most of the increase has occurred among crop products such as bakery and cereal products and fats and oils (figs. 5 and 6). Widening marketing spreads accounted for 86 percent of the rise in the retail cost of crop foods since mid-1973, compared to about half for livestock products. The main reason for the larger impact on dollar costs of crop products is that the costs of marketing comprise from 65 to 80 percent of the retail cost. Therefore, increases in costs of marketing inputs have much more influence on retail costs than do similar increases in prices of basic commodities.

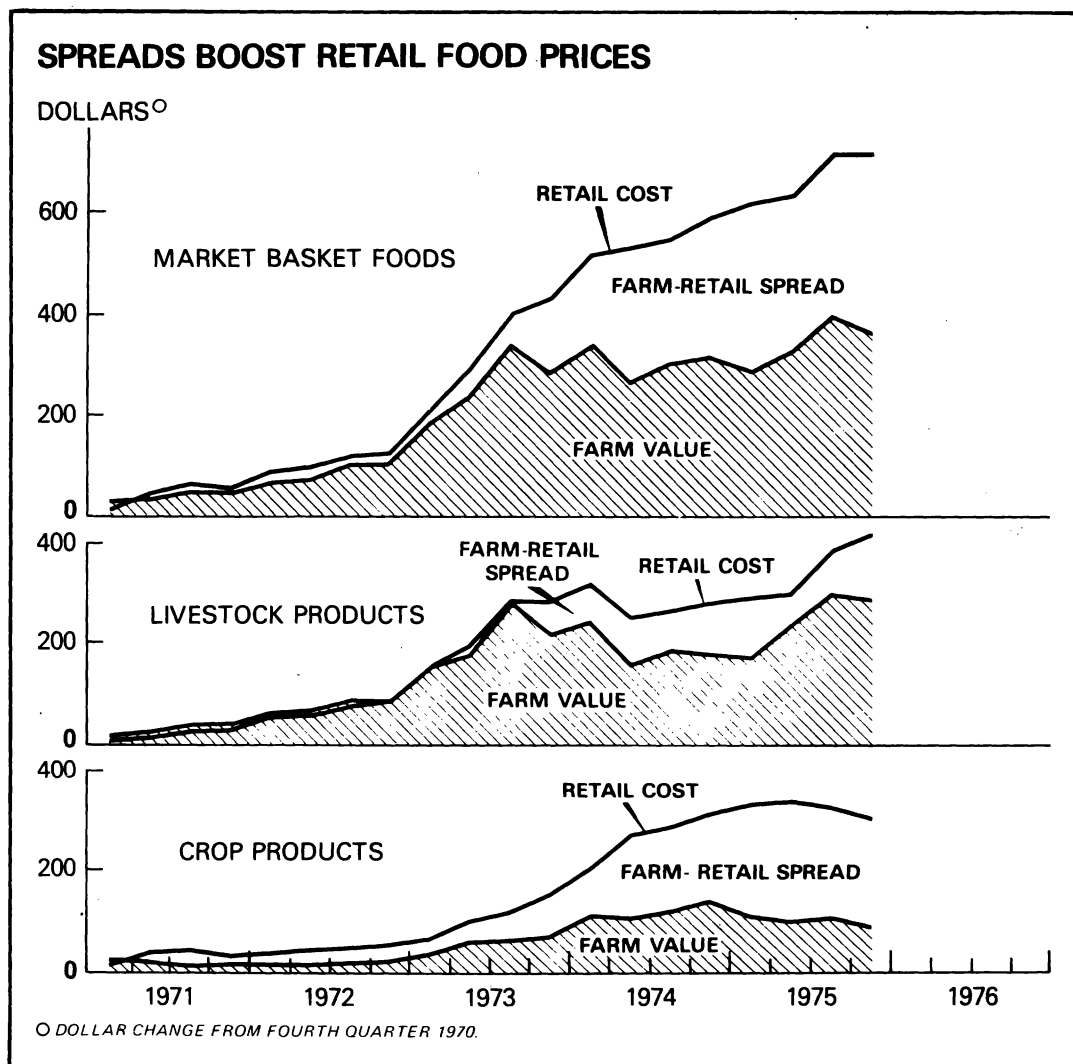


Figure 4

FARM-RETAIL SPREAD FOR BAKERY AND CEREAL PRODUCTS

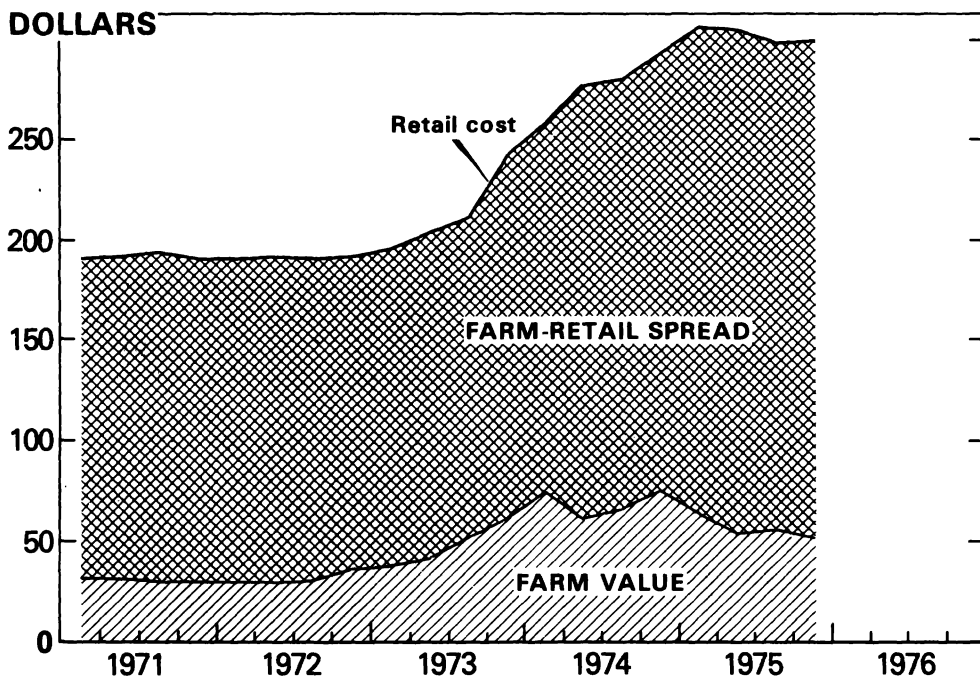
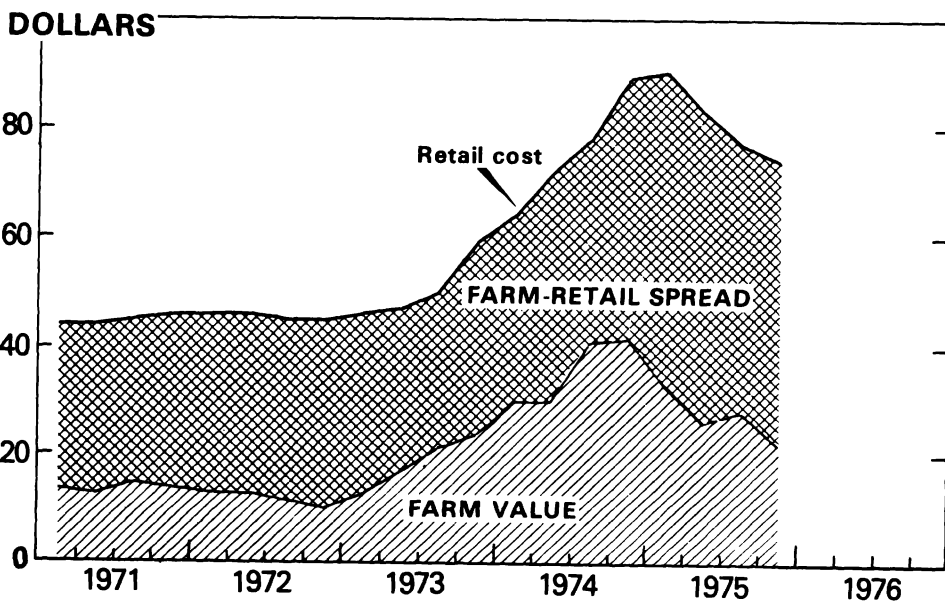


Figure 5

FARM-RETAIL SPREAD FOR FATS AND OILS PRODUCTS



INCLUDES MARGARINE, VEGETABLE SHORTENING, SALAD AND COOKING OIL, AND PEANUT BUTTER.

Figure 6

COMMODITY HIGHLIGHTS

Beef and Pork

Retail meat prices averaged substantially higher in 1975 than in 1974, reflecting both lower grain-fed beef production and sharply lower pork production. Prices of Choice beef rose an average of 7 cents per pound to \$1.46, and pork jumped 27 cents per pound to \$1.35 (table 4).

Livestock prices in 1975 averaged well above year-earlier levels and accounted for most of the rise in retail meat prices. Hog prices were at record levels during much of the year because of a 17-percent drop in production. Farm value of pork (1.97 pounds of live animal equivalent to 1 pound of retail cuts) averaged 87 cents, 43 percent above 1974. Cattle prices weakened after midyear but also averaged higher than in 1974. Farm value of Choice beef (2.28 pounds of live animal equivalent to 1 pound of retail cuts) averaged 93 cents, 8 percent higher than in 1974. Moreover, the farmer's share of the consumer's dollar spent for meat increased 2 cents to 64 cents for beef, and 8 cents to 64 cents for pork.

Farm-to-retail price spreads for meat fluctuated widely during the year as a result of lags in price adjustments at various market levels. Price spreads for beef dropped from 56 cents per pound at the beginning of the year to 44 cents in April and May as cattle prices rose faster than retail prices. Spreads widened after midyear as cattle prices weakened, and reached a high of 59 cents in November (fig. 7). For the year, however, the farm-retail spread for beef averaged 53 cents, less than 1-percent higher than in 1974. This increase compared with a 16-percent hike in 1974, and 10-percent in 1973.

Movements in price spreads for pork were similar to beef during the first half of 1975, dropping from 48 cents in January to 39 cents in June as hog prices rose. Spreads began widening after midyear, and in November escalated to nearly 65 cents as hog prices dropped and the lower farm prices were not fully reflected at the retail level (fig. 8). Spreads for pork, which historically are several cents lower than for beef, averaged 3 cents higher than for beef in the fourth quarter of 1975. For the year, the farm-retail spread for pork averaged about 48 cents, about the same as the year before. This compared with increases of 24 percent in 1974 and 8 percent in 1973.

Eggs and Poultry

High prices of red meat and short supplies of pork helped to keep prices of eggs and poultry strong during 1975. The modest recovery in the economy during the last part of 1975 also strengthened demand and helped to keep prices relatively high. While farm to consumer price spreads widened slightly in 1975, costs of marketing also rose as prices for such major inputs as labor, packaging, transportation, and utilities increased.

Production costs declined as the year progressed, due to lower feed prices which averaged about 5 percent less per ton than during 1974. However, the decrease in the price of feed was partly offset by steady upward price pressure on other inputs, including fuels and supplies.

Table 4 .--Retail prices and price spreads for selected foods, annual 1973-75,
quarterly 1975 1/

Food item	Annual			1975 quarterly			
	1973	1974	1975	I	II	III	IV
Beef, choice:							
Retail price (cts./lb.) ...	135.5	138.8	146.0	129.6	146.5	156.4	151.4
Carcass value (cts.).....	98.1	97.4	105.0	86.6	113.4	115.4	106.5
Net farm value (cts.).....	89.9	86.1	92.9	75.2	101.3	100.9	94.3
Farm-retail spread (cts.)..	45.6	52.5	53.1	54.4	45.2	55.5	57.1
Carcass-retail spread(cts.):	37.4	41.4	40.5	43.0	33.1	41.0	44.9
Farm-carcass spread (cts.):	8.2	11.3	12.6	11.4	12.1	14.5	12.2
Farmer's share (percent) ..	66	62	64	58	69	65	62
Pork:							
Retail price (cts./lb.) ...	109.8	108.2	135.0	114.4	123.1	149.2	153.4
Carcass value (cts.).....	87.3	77.4	102.4	85.7	96.7	118.9	100.9
Net farm value (cts.).....	71.5	60.8	86.8	68.3	81.5	104.3	93.2
Farm-retail spread (cts.)..	38.3	47.4	48.2	46.1	41.6	44.9	60.2
Carcass-retail spread(cts.):	22.5	30.8	32.6	28.7	26.4	30.3	45.0
Farm-carcass spread (cts.):	15.8	16.6	15.6	17.4	15.2	14.6	15.2
Farmer's share (percent) ...	65	56	64	60	66	70	61
Milk, fresh:							
Retail price (cts./ $\frac{1}{2}$ gal.)...	65.4	78.4	78.5	79.2	77.7	77.2	80.0
Farm value (cts.)	34.1	40.8	41.2	40.0	39.9	40.5	44.5
Farm-retail spread (cts.) ..	31.3	37.6	37.3	39.2	37.8	36.7	35.5
Farmer's share (percent) ...	52	52	52	51	51	52	56
Bread, white:							
Retail price (cts./lb.)	27.6	34.5	36.0	37.3	36.2	35.2	35.2
Farm value, (cts.) <u>2/</u>	5.5	8.0	6.8	7.5	6.2	7.0	6.4
Farm-retail spread (cts.) ..	22.1	26.5	29.2	29.8	30.0	28.2	28.8
Farmer's share (percent) ...	20	23	19	20	17	20	18
Potatoes:							
Retail price (cts./10-lbs.)..	136.6	166.4	134.4	109.3	115.8	171.5	141.1
Farm value (cts.)	44.4	59.4	45.4	32.7	45.5	61.3	42.1
Farm-retail spread (cts.) ..	92.2	107.0	89.0	76.6	70.3	110.2	99.0
Farmer's share (percent) ...	32	36	34	30	39	36	30
Canned Corn:							
Retail price (cts./303 can)..	25.0	29.5	38.4	38.4	38.0	38.9	37.4
Farm value (cts.)	2.9	4.0	5.5	5.4	5.4	5.5	5.6
Farm-retail spread (cts.) ..	22.1	25.5	32.9	33.0	32.6	33.4	31.8
Farmer's share (percent) ...	12	14	14	14	14	14	15
Margarine:							
Retail price (cts./lb.)	37.4	57.4	62.9	70.6	63.7	58.9	58.2
Farm value (cts.)	14.0	27.8	21.0	25.5	20.1	22.3	16.2
Farm-retail spread (cts.) ..	23.4	29.6	41.9	45.1	43.6	36.6	42.0
Farmer's share (percent) ...	37	48	33	36	32	38	28

1/ Retail prices are estimated U.S. averages. Farm values are the payment for the quantity of farm product equivalent to the retail unit; for instance, beef, 2.28 lbs. live animal and pork, 1.97 lbs.

2/ For wheat and other farm ingredients.

PRICE SPREADS FOR CHOICE BEEF

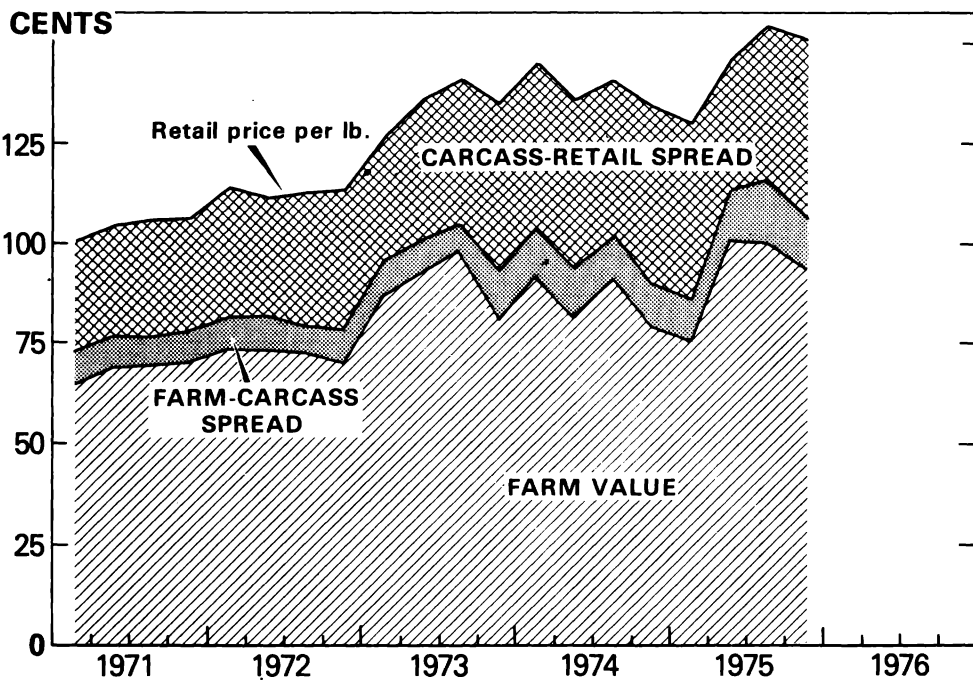


Figure 7

PRICE SPREADS FOR PORK

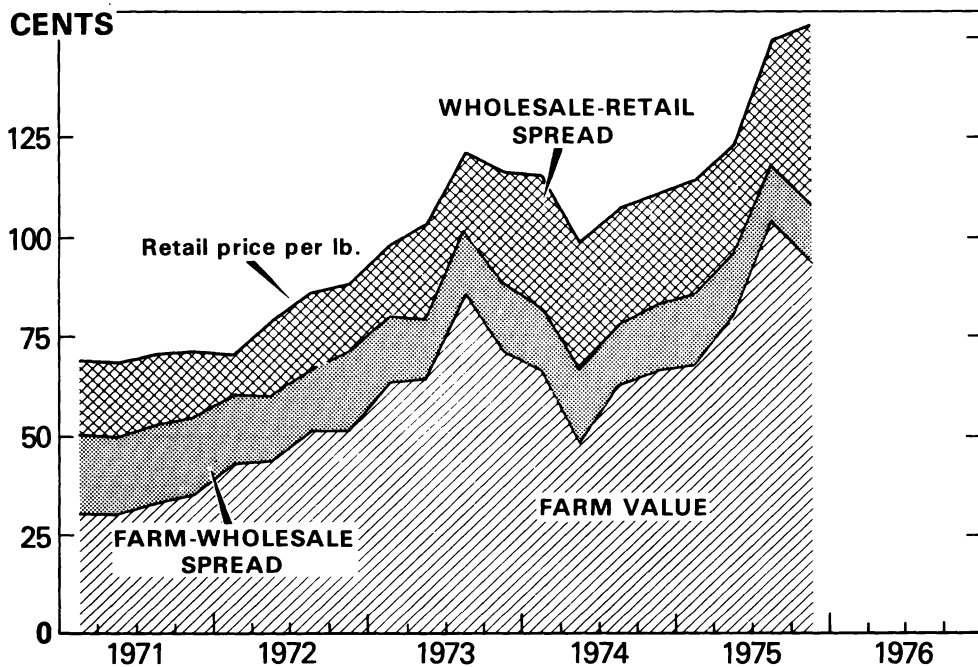


Figure 8

Eggs--The price of Grade A large eggs sold in 12 major U.S. cities averaged 76 cents per dozen during 1975, a cent less than for 1974. The farm value of Grade A large eggs also declined, averaging 49 cents during 1975 compared with 52 cents during 1974. The farm to consumer spread for eggs averaged 27 cents per dozen during 1975, 2 cents more than during the previous year. The retailing component averaged 11 cents per dozen, the same as 1974, but the farm to retailer spread increased 2 cents to 16 cents per dozen during 1975. The farmer's share of the consumer's dollar spent for Grade A large eggs declined from 66 to 64 percent.

Frying Chickens--The retail price of Grade A frying chickens sold in 12 major U.S. cities averaged 64 cents per pound during 1975, 7 cents more per pound than during 1974. Most of this increase reflected an increase in the farm value of frying chicken, which rose from 31 cents to 36 cents per pound.

The farm to consumer spread for frying chickens averaged 28 cents per pound during 1975, 2 cents more per pound than during 1974. The farm to retailer spread averaged 13 cents per pound and the retail spread 15 cents per pound, an increase of about a cent each. The farmer's share of the consumer's dollar spent for frying chickens during 1975 averaged 56 percent compared to 54 percent during 1974.

Turkeys--Grade A Medium turkeys, 16-24 pounds, sold at retail in 12 major U.S. cities, averaged 78 cents per pound during October, November and December of 1975, 7 cents per pound higher than for the same period of 1974. The farm equivalent value of medium turkeys during the fall marketing season of 1975 also rose 7 cents to 46 cents. Thus, the farm to consumer margin for medium turkeys averaged 32 cents per pound, the same as during 1974. The retail margin averaged 14 cents per pound and the farm to retailer margin 10 cents per pound. The farmer's share of the consumer's dollar spent for turkey averaged 59 percent compared to 55 percent for the same period during 1974.

Milk

Prices of fresh milk sold in retail stores were remarkably stable during 1975, in contrast to wide variations in recent years. Averaging 78.5 cents per half gallon, retail prices rose only 0.1 cent over 1974, compared with the 13-cent rise of the previous year (table 4). During the spring and summer prices were below those of a year ago, but rose in the face of a tight supply-demand situation during the fall to close the year at 81.1 cents, 1.9 cents higher than at the end of 1974.

Farm prices of milk used for fluid uses ran below those of a year earlier until midsummer, but then moved up and at the end of the year were 11 percent above the previous December. The farm-retail spread narrowed slightly during the year, also contrasting with a year earlier when the spread increased considerably.

While 1975 milk production was almost the same as in 1974, the seasonal patterns differed, running below year-earlier levels during the spring and rising above late in the year.

Fluid sales increased as consumers responded to more favorable retail prices. High fluid sales and low milk production reduced the volume of milk available for manufacturing. As a result, commercial dairy stocks were pulled down rapidly.

Strong fluid and manufactured product sales caused the farm milk prices to rise to a record high late in the year. Retail milk prices rose rapidly during the fall, but these increases just brought the level back to that of mid-1974.

Butter

Butter prices averaged \$1.03 per pound at retail in 1975, 8 cents above a year ago. Prices were relatively stable during the early part of the year, but rose from 96 cents per pound in June to \$1.25 in December. Although retail prices moved higher, they did not rise as rapidly as did the farm value of milk. Thus, the farm-retail spread declined as merchants failed to maintain margins at the higher levels they had risen to during 1974.

Early in the year, a weak cheese market caused milk to be diverted from cheese to butter production. Despite strong sales, these larger supplies of butter held wholesale prices at or near support levels. This condition changed later in the year as fluid sales remained strong and cheese prices and sales both increased, pulling some milk away from butter again.

Butter consumption was helped by the favorable price relative to margarine during late 1974 and early 1975. Although some of this price advantage was lost as butter prices moved up during the last half of the year, retail prices continued generally more favorable for butter than during the early 1970's. In the face of a brisk demand, butter supplies were very tight during the last quarter of the year. Shortages were reported throughout the industry and suppliers were allocating current production among regular buyers.

Fruits and Vegetables

Retail prices increased for about half of the major fresh fruits and vegetables and almost all processed items in 1975. Higher prices were mainly the result of widening farm-retail marketing spreads (although the increases were generally smaller than a year earlier), and short supplies of winter and spring vegetables. Increases in marketing spreads could be largely attributed to higher rail transportation, labor, and packaging costs.

Retail prices of fresh fruits increased by only 2 percent overall in 1975. Apple prices were about the same as a year earlier. However, orange prices rose about 4 percent and grapefruit and lemon prices rose 10 percent, due mainly to an increase of about 10 percent in the marketing spread of all three products. Farm values also increased for grapefruit and lemons but declined for oranges. Overall, the farmer's share of the retail price of fresh fruit averaged 30 percent, unchanged from 1974.

Retail prices of fresh vegetables averaged about 4 percent lower in 1975 than a year earlier largely due to a substantial drop in potato prices. Prices of potatoes averaged \$1.34 per 10-pound bag in 1975, almost 20 percent less than in 1974, reflecting larger supplies and lower farm prices, and a decrease in the farm-to-retail price spread.

Retail prices of processed fruits and vegetables averaged 13-percent higher in 1975 than a year earlier, reflecting short supplies and thus high product costs during the 1974 processing season, and higher marketing charges. Leading the increases were prices of most canned and frozen vegetables, which averaged between 15 to 30 percent higher in 1975. Frozen orange juice prices, which had risen very little in recent years, increased 8 percent in 1975 reflecting a substantial increase in the farm to retail price spread. Overall, the farmer's share of the retail price of processed fruits and vegetables averaged 22 percent in 1975 compared with 21 percent in 1974.

White Bread

The retail price of a 1-pound loaf of white pan bread averaged about 1.5 cents higher during 1975, compared with 1974, but this was largely the result of record prices early in the year. The retail price peaked at 37.4 cents per loaf in February and declined for much of the year. Retail prices edged up during the fourth quarter, but still were about 2 cents per loaf lower than the peak at the end of the year. For the year as a whole, the retail price averaged about 36 cents per 1-pound loaf (fig. 9).

Cost pressures exerted by increased prices of ingredients abated during 1975. Declines in the costs of ingredients were noted particularly for flour, vegetable shortenings, and sugar. These declines primarily can be traced to lower average market prices for wheat, oilseeds (especially soybeans), and sugar. These prices declined for most of the year, except for an increase in the third quarter. However, by the end of the year, the costs of ingredients had declined about 2 cents per loaf.

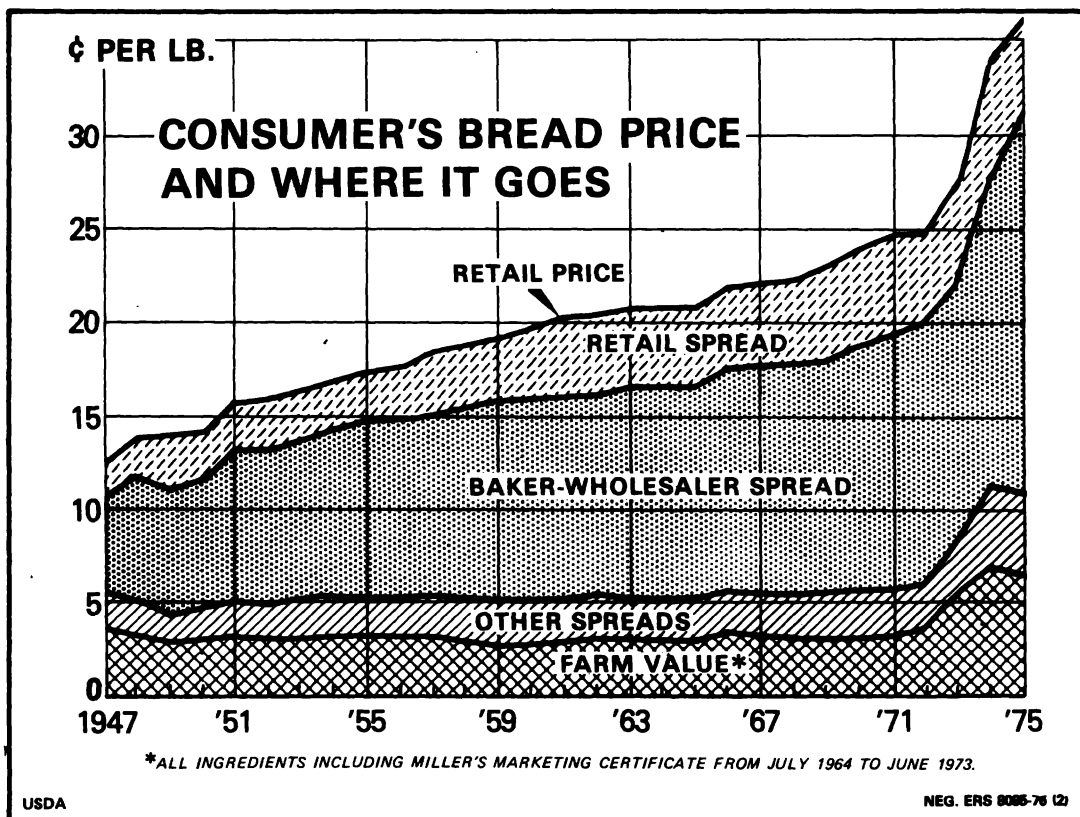


Figure 9

The costs of farm produced ingredients declined for several reasons. In the case of wheat, the supply-demand balance was relatively tight during the early part of the year, but markets were not as tight as they were early in 1974. Thus, the record prices of the earlier year were not repeated during 1975. A sharp drop in the disappearance of soybean oil, partially due to the reduced level of economic activity, and heavy imports of palm oil were causes of weaker markets and lower prices for soybeans and other oilseeds. World prices for sugar also declined sharply during 1975.

The marketing spread for bread averaged 2.7 cents a loaf higher in 1975 than a year earlier. The baking-wholesaling spread increased sharply because wholesale prices for bread did not decline as much as prices reported at retail. Wholesale prices were nearly as high at the end of 1975 as they were in January.

Vegetable Oil Products

Margarine, cooking and salad oil, and shortening are the principal food products made from the oils obtained from soybeans, cottonseed, and corn. Soybean oil is the leading oil or fat used in the manufacture of these products. It accounts for about 85 percent of the fats and oils used in making margarine, over 75 percent for cooking and salad oil, and about 60 percent for shortening.

Retail prices of fats and oils products averaged 5 to 10 percent higher in 1975 than in 1974 because of increases in marketing spreads. For instance, the price of margarine averaged 63 cents per pound last year, about 5 cents higher than for 1974. However, the farm value of the oil and a small amount of dry milk solids used to make it declined nearly 7 cents to 21 cents. Thus, the farm-retail price spread jumped about 12 cents, averaging nearly 42 cents per pound in 1975, the highest on record.

As a result of tight supplies and rising oilseed prices in 1974, food oil prices started the year 1975 at relatively high levels but due to a drop in consumption and a near record harvest of soybeans, oil prices dropped sharply as the year progressed. For example, crude soybean oil dropped from an average of 33.6 cents a pound in January to 16.8 cents in December. Most of the decline in oil prices was reflected in lower retail prices of fats and oils products. Retail margarine prices dropped about 14 cents per pound from January to December, about the same amount as the decline in the farm value of ingredients in margarine.

During the past 3 years of rapid food price increases, prices of fats and oils products have risen around 90 percent. Both marketing charges and costs of the basic ingredients have gone up appreciably. Farm to retail marketing spreads for 1975 were roughly 70 percent higher than for 1972, and farm values of ingredients were over 140 percent higher. Because farm values increased relatively more than marketing spreads, the farmer's share has increased from about one-fourth of the retail cost to around a third.

COST COMPONENTS OF PRICE SPREADS

The food dollar pays for all the services involved in producing, processing, and distributing food. A major factor in widening marketing spreads and rising food prices in recent years has been large cost increases in nearly all phases of food production and marketing. Therefore, special estimates of marketing costs and margins have been made for a number of major food items purchased by consumers in retail stores to help better understand the uses to which our food money is put and to analyze the cause of rising food costs. The estimates are based on data obtained from a small number of firms and various industry studies, and cost indexes to update previous estimates to 1974, the latest year for which data are available to make estimates. This report contains a summary of these findings. A separate report is being prepared for publication this spring to provide additional data for individual foods.

Distribution of Food Dollar by Function

The retail prices of 16 foods broken down by marketing function--retailing, wholesaling, processing, and assembly--and farm value are shown in table 5. The costs for various functions represent the price spread between two market levels or the sum of estimated costs of a function, and do not necessarily represent the margins of individual firms or group of firms performing the function.

The costs of performing various functions vary widely among products. There are many reasons for this variation. To a large degree, differences in costs reflect the complexity of the marketing job that must be performed and the characteristics of the product.

For most products, the more work that must be done in changing the form of a product and providing service to satisfy the consumer, the greater the costs for processing. Processing costs are less than a fifth of the retail price for broilers, milk, and lettuce which undergo relatively little change in form. In contrast, they are around half the retail price of canned tomatoes (fig. 10).

The bulkiness and weight of products in relation to value account for differences in transportation costs among products. Costs of shipping meat, dairy, and poultry products, which are relatively dense in volume and of high value, account for only 2 or 3 percent of the retail price. But shipping costs for fresh produce and most canned and bottled products are much higher, ranging up to 10 percent or more of the selling price.

Marketing perishables is usually more costly than marketing other products, partly because of a comparatively high amount of spoilage and waste, and selling space occupied in the retail store. Of the items studied, the retail margin was highest for oranges and lettuce, averaging about two-fifths of the retail price, about double the retail margin for most other products.

Table 5.--Distribution of retail price according to farm value and marketing function, 16 farm food products, 1974

Food item	Farm value 1/	Marketing functions					Retail price
		Assembly and pro- curement	Process- ing	Intercity transportation	Wholesale- ing	Retail- ing 2/	
				Cents			
Beef, Choice (pound)	86.1	1.7	8.3	1.3	8.2	33.2	138.8
Pork, (pound)	60.8	1.9	13.3	1.4	6.4	24.4	108.2
Broilers, (pound)	31.5	1.4	7.2	1.4	3.3	11.2	56.0
Eggs, grade A or AA large (dozen) ..	53.2	1.2	8.9	1.5	3.2	10.3	78.3
Milk, sold in stores (½ gallon) ..	40.9	2.7	10.7	3/	13.6	10.5	78.4
Butter, (pound)	58.6	3.3	8.9	1.5	5.4	16.8	94.5
Oranges, Calif. (dozen)	34.6	1.7	17.2	13.9	9.0	50.7	127.1
Lettuce, Calif. (head)	6.3	.3	8.3	6.3	3.0	18.2	42.4
Potatoes (10 pound bag)	67.5	4/	24.7	15.5	3.7	63.4	174.8
Orange juice, frozen (6-oz. can) ..	8.5	.6	6.5	1.3	3.1	5.8	25.8
Tomatoes, Calif. whole (303 can) ..	3.8	.5	15.2	2.7	1.6	6.0	29.8
Tomato catsup, Calif. (14-oz. bot.)	5.6	.8	19.9	3.4	3.2	5.5	38.4
Bread, white (pound)	8.0	.6	5/ 9.9	6/ .4	9.8	5.8	34.5
Margarine, (pound)	27.7	1.6	7/ 16.5	.4	1.6	9.6	57.4
Salad and cooking oil (24-oz.) ...	44.6	2.9	7/ 45.5	1.8	.7	11.3	106.8
Vegetable shortening (3 pounds) ..	97.5	6.1	7/ 64.8	1.9	8/	8.7	179.0

1/ The farm value is the gross return to farmers for the quantity of farm products equivalent to the unit sold at retail minus imputed value of byproducts. Because of losses from processing, waste, and spoilage the farm value represents larger quantities than the retail unit. 2/ In-store costs only. Headquarters and warehousing expenses are included in wholesaling. 3/ Included in wholesaling. 4/ Included in farm value. 5/ Flour milling and bread baking. 6/ Flour only. 7/ Includes oilseed crushing, crude oil refining, and manufacturing of finished product. 8/ Implicitly included in costs of other functions.

The complexity of the various marketing functions explains in part the farmer's share of the retail price. Among the products shown, the farmer's share ranges from about 12 percent for canned tomatoes to 68 percent for eggs. Much of this large difference reflects the relative amounts of processing of the products and overall amount of marketing services performed. In addition, the farmer's share reflects the amount of resources used in farm production in relation to the marketing functions performed. Thus, the farmer's share of the retail price is generally greater for animal products than for crop-based foods. Because of the many factors that affect the way retail costs break down among marketing agencies and farm production, the size of the various shares usually does not mean greater or less return or efficiency of one activity over another.

Distribution of Marketing Spreads by Cost Item

Marketing spreads of 9 items, broken down by cost item such as labor and packaging, are shown in table 6. The largest portion of the total marketing spread for most items is attributed to combined labor costs at each level of marketing. For beef, pork, eggs, and milk, labor costs account for around two-fifths of the spread. This figure actually understates the importance of labor because assembly and wholesaling costs for most products could not be allocated into labor and other expense items because of lack of data.

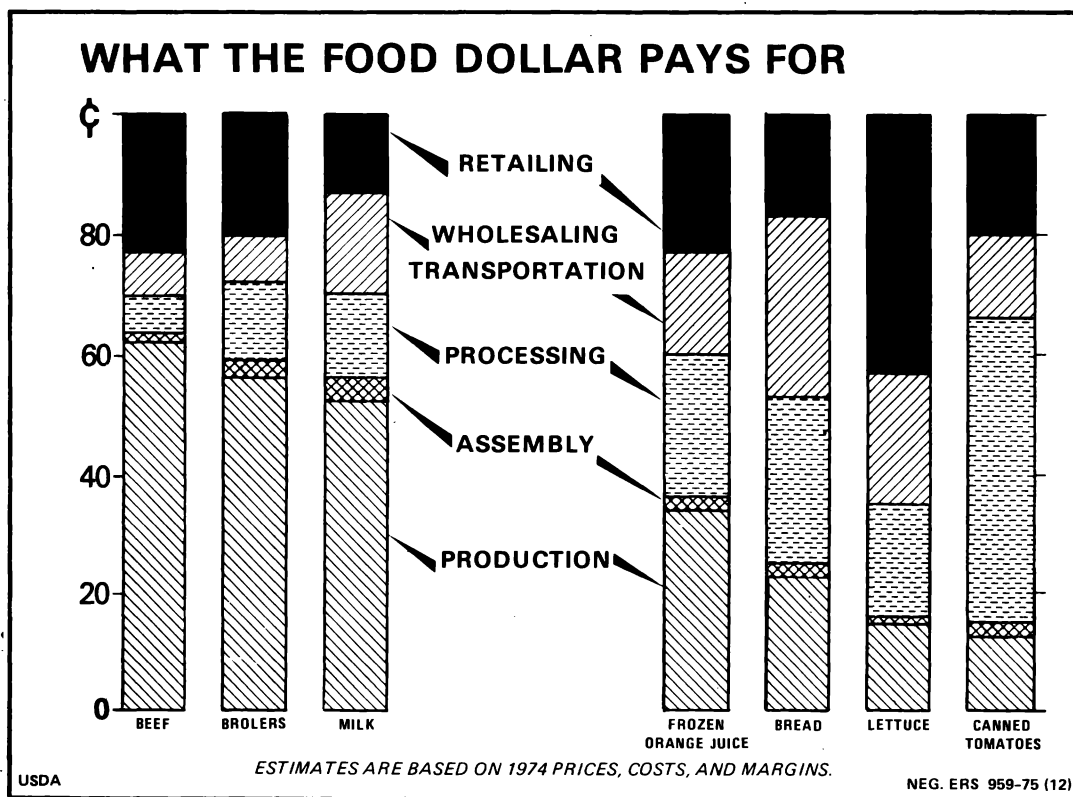


Figure 10

Table 6.--Distribution of marketing spread by cost item, 9 leading farm food products, 1974

Item	Beef, Choice (pound)	Pork (pound)	Broiler (pound)	Eggs grade A or AA large (dozen)	Fresh milk sold in stores ($\frac{1}{2}$ gallon)	Frozen conc. orange juice, Florida (6-ounce can)	Canned tomatoes Calif. (303-can)	Fresh potatoes (10-pound bag)	White bread (1-pound loaf)
					<u>Cents</u>				
Retail price	138.8	108.2	56.0	78.3	78.4	25.8	29.8	174.8	34.5
Farm value	86.1	60.8	31.5	53.2	40.9	8.5	3.8	67.5	8.0
Marketing spread	52.7	47.4	24.5	25.1	37.5	17.3	26.0	107.3	26.5
Labor	20.9	17.2	12.5	10.1	15.3	4.3	5.7	30.2	14.0
Packaging	4.4	2.2	1.7	4.0	3.5	3.1	7.7	9.1	2.0
Transportation	3.0	2.8	2/	3/	4.1	1.8	3.2	15.9	.3
Business taxes	1.2	1.1	.6	.7	1.2	.3	.3	1.9	.4
Depreciation .....	.7	1.5	.7	.5	1.4	.2	1.1	2.2	.7
Rent .....	.7	1.8	.5	.1	1.0	.5	.3	1.6	.2
Repairs .....	.4	1.3	.5	.2	1.1	.4	.1	1.3	.2
Advertising	1.6	1.4	.7	1.0	1.6	.8	.3	2.0	.9
Interest .....	.9	.6	.3	.4	2.4	.4	.6	2.6	.2
Energy .....	.8	2.5	2.4	2.0	1.2	.5	.3	3.2	.3
Other	5.4	4.9	1.6	2.5	2.6	1.3	1.1	17.2	4/ 5.2
Profit	3.7	2.6	1.3	2.0	4.1	.6	1.2	13.7	2.1
Unallocated 1/.....	9.0	7.5	1.7	1.6	-	3.1	4.1	6.4	-
					<u>Percent</u>				
Share of marketing spread:									
Labor	40	36	51	40	41	25	22	28	53
Packaging	8	5	7	16	9	18	30	8	7
Transportation	6	6	2/	3/	11	10	12	15	1
Business taxes	2	2	2	3	3	2	1	2	2
Depreciation	1	3	3	2	4	1	4	2	3
Rent	1	4	2	1	3	3	1	2	1
Repairs	1	3	2	1	3	2	1	1	1
Advertising	3	3	3	4	4	5	1	2	3
Interest	2	1	1	1	1	2	2	2	1
Energy	2	5	10	8	3	3	1	3	1
Other	10	10	7	10	7	7	4	16	4/ 19
Profit	7	6	5	8	11	4	5	13	8
Unallocated 1/.....	17	16	7	6	-	18	16	6	-
Total	100	100	100	100	100	100	100	100	100

1/ Consists mainly of assembly, storage, and wholesaling charges which could not be allocated to cost components because of lack of data. 2/ Cost of 4.1 cents is distributed among labor and other components. 3/ Cost of 3.9 cents is distributed among labor and other components. 4/ Includes cost of non-flour ingredients to the baker of 1.2 cents.

With labor cost so important throughout the marketing system, the large increases in wages and salaries of workers over the years have been a major cause of rising marketing spreads and food prices. Gains in productivity the past several years have not been sufficient to keep labor costs in marketing from rising substantially.

After labor, transportation and packaging are the major costs of marketing most foods. Packaging costs vary widely among products, depending on the materials used. For eggs, the cost of the carton and other materials accounted for 16 percent of the total farm-to-retail marketing spread. Costs ranged from 5 to 10 percent of marketing spread for most items. Transportation costs also vary widely among items, ranging from 6 percent of beef and pork spreads to around 15 percent for potatoes, which are bulky and low in value relative to their weight. Most other marketing costs, including advertising, capital costs, and repairs, are relatively small, accounting for less than 5 percent of the spread. Profits taken by marketing firms before taxes accounted for between 5 and 10 percent.

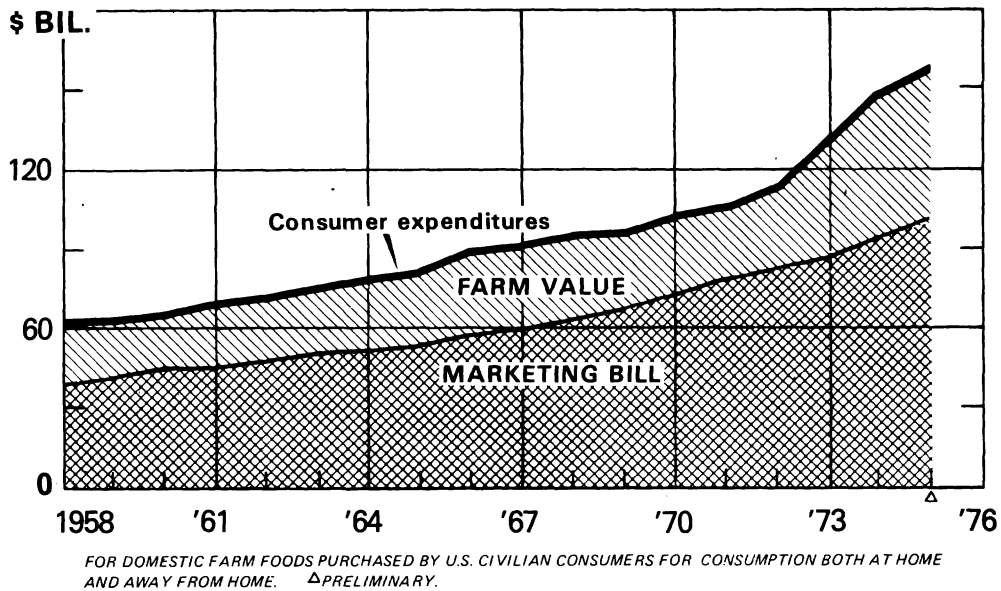
THE MARKETING BILL

Marketing bill statistics are another measure of food marketing costs. The marketing bill is an estimate of the total annual charges by marketing firms for transporting, processing, and distributing U.S. farm foods. It is the difference between total consumer expenditures for farm foods, including foods consumed away from home, and total payments to farmers for food products. Unlike the market basket statistics, the marketing bill statistics are affected by changes in volume and type of products marketed as well as price changes. The marketing bill accounts for almost two-thirds of consumer food expenditures, and is almost double the amount received by farmers for food products (fig. 11).

In 1975, consumers spent an estimated \$159 billion for food originating on U.S. farms, an increase of \$12 billion over 1974. The marketing bill is estimated to have been \$102 billion, \$10 billion more than the previous year. In 1975, farmers received \$57 billion for food products, \$1.5 billion more than in 1974. These increases were due mainly to price changes as overall volume of food marketed declined slightly from the previous year.

The marketing bill is the sum of charges made by various marketing agencies, including processors, wholesalers, retail stores, and away-from-home eating places. Food processing and intercity transportation costs account for the largest proportion, about one-third of the total bill. Retail food store charges account for nearly 30 percent. Charges connected with preparing and serving food in eating places, including institutions such as schools and hospitals, make up close to one-fourth of the total food marketing bill. Assemblers and wholesalers divide the remaining 15 percent. Over the past 10 years, processing costs as a proportion of the marketing bill have declined slightly while the share taken by distribution agencies has increased. This is due, in part, to the fact that processors are more capital intensive which has enabled them to increase labor productivity more than food distributors (fig. 12).

FARM-FOOD MARKETING BILL AND CONSUMER FOOD EXPENDITURES

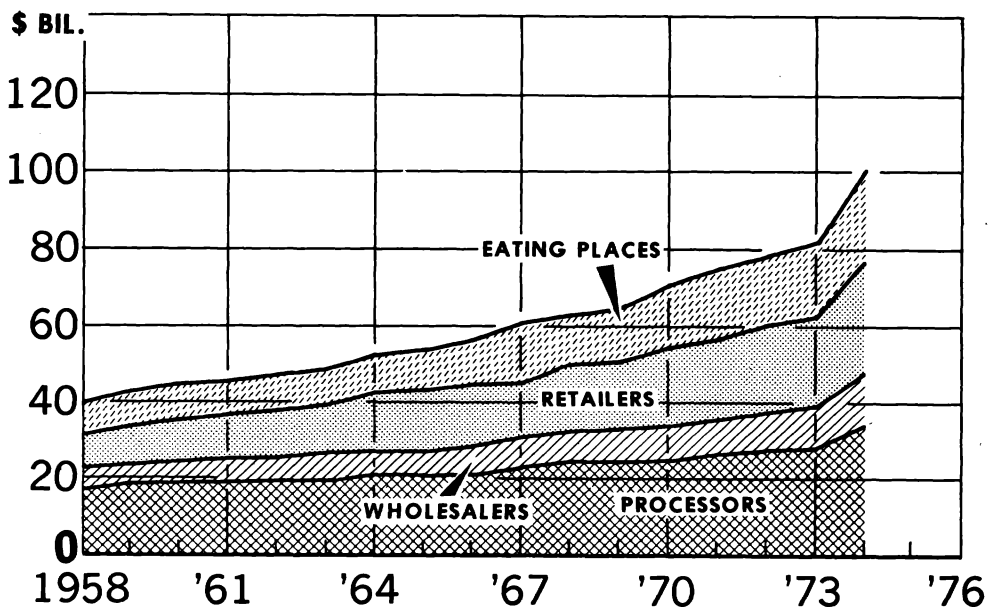


USDA

NEG. ERS 961-75 (12)

Figure 11

AGENCY COMPONENTS OF THE MARKETING BILL



USDA

NEG. ERS 960 - 75 (11)

Figure 12

Among commodity groups, marketing charges are now the largest for fruit and vegetable products. These marketing charges amount to \$25 billion and account for three-fourths of consumer expenditures for fruit and vegetable products. Marketing charges for meat products are nearly as large, but represent only slightly more than half of every dollar spent on meat products. Marketing charges for most other foods are substantially larger than the return to farmers for these products, and therefore account for the major portion of the food dollar.

Growth in Marketing Charges

In the last decade, the food marketing bill rose \$48 billion, an annual average of 6.6 percent. Last year the bill increased 11 percent, due mainly to increases in prices of inputs and labor bought by marketing firms, and increased profits (table 7).

Over the past decade, increases in marketing costs per unit of product marketed were responsible for almost three-quarters of the total increase in the marketing bill. Most of the increase in cost occurred in the last 5 years as labor and prices of other marketing inputs rose sharply. Costs of marketing a larger volume of food accounted for about one-sixth of the growth in the marketing bill the past decade. In recent years there has been little increase in the food marketing bill attributable to more processing and preparation of food, and other services per unit of product marketed. Costs of these added services accounted for less than one-tenth of the increase in the bill for marketing food in the past decade.

Costs of Away-From-Home Eating

A large and expanding part of the marketing bill is the cost associated with food eaten away from home. Expenditures for food consumed in restaurants and other eating places, including institutions, were \$45 billion in 1975, or 28 percent of total farm-food expenditures.

The marketing bill for away-from-home eating is larger relative to consumer expenditures than that for at-home eating. The at-home marketing bill amounted to \$68 billion in 1975, and accounted for about three-fifths of consumer expenditures for food bought for use at home. In contrast, the away-from-home marketing bill of \$35 billion accounted for over three-fourths of away-from-home expenditures for food. The larger proportion for restaurants and institutions reflects the added cost of preparing and serving food.

Paralleling the growth of away-from-home eating, the largest rate of increase in food marketing costs has been in the away-from-home bill. Between 1967 and 1975, marketing costs associated with food bought in restaurants and institutions increased by 74 percent. In contrast, the costs of marketing foods purchased at retail food stores rose 65 percent.

Table 7 .--Consumer expenditures, marketing bill, and farm value, for U.S. farm foods, 1965-75

Year	Total	At-home <u>2/</u>	Away-from-home		
			Total	Public eating	Institutions
				places <u>3/</u>	<u>4/</u>
<u>Billion dollars</u>					
<u>Consumer expenditures</u>					
1965	81.1	60.2	20.9	16.1	4.8
1966	86.9	64.0	22.9	17.8	5.1
1967	89.3	64.3	25.0	19.3	5.7
1968	94.0	67.4	25.6	20.5	6.1
1969	98.8	70.3	28.5	21.9	6.6
1970	105.9	74.5	31.4	23.8	7.6
1971	110.7	77.6	33.1	25.0	8.1
1972	116.6	81.6	35.0	26.9	8.1
1973	132.0	93.7	38.3	29.4	8.9
1974	147.5	106.3	41.2	32.3	8.9
1975 <u>1/</u>	159.4	114.4	45.0	35.4	9.6
<u>Marketing bill</u>					
1965	54.0	38.1	15.9	12.3	3.6
1966	57.1	39.8	17.3	13.5	3.8
1967	60.8	40.9	19.9	15.3	4.6
1968	63.6	42.5	21.1	16.2	4.9
1969	65.2	42.2	23.0	17.6	5.4
1970	71.1	46.1	25.0	18.8	6.2
1971	75.4	48.7	26.7	19.9	6.8
1972	77.9	50.2	27.7	21.1	6.6
1973	82.0	53.0	29.0	22.0	7.0
1974	92.0	60.8	31.2	24.3	6.9
1975 <u>1/</u>	102.4	67.7	34.7	27.2	7.5
<u>Farm value</u>					
1965	27.1	22.1	5.0	3.8	1.2
1966	29.8	24.2	5.6	4.3	1.3
1967	28.5	23.4	5.1	4.0	1.1
1968	30.4	24.9	5.5	4.3	1.2
1969	33.6	28.1	5.5	4.3	1.2
1970	34.8	28.4	6.4	5.0	1.4
1971	35.3	28.9	6.4	5.1	1.3
1972	38.7	31.4	7.3	5.8	1.5
1973	50.0	40.7	9.3	7.4	1.9
1974	55.5	45.5	10.0	8.0	2.0
1975 <u>1/</u>	57.0	46.7	10.3	8.2	2.1

1/ Preliminary. 2/ At-home is food consumed from the home food supply (primarily purchased from retail food stores). 3/ Includes restaurants, cafeterias, snack bars, and other eating establishments. 4/ Includes the value of food served in hospitals, schools, colleges, rest and nursing homes, and other institutions.

Labor Cost

Labor is the largest cost incurred by firms processing and distributing farm food products, and has accounted for around half of the marketing bill in recent years (fig. 13). In 1975, labor costs amounted to over \$52 billion, 11 percent more than in 1974. Food processing, retailing, and eating place labor costs were between \$15 and \$16 billion each. Wholesalers spent over \$6 billion for labor. Labor costs of all agencies have been rising but in the last 10 years the increase in distribution costs--retailing, wholesaling, and away-from-home eating--has been about a third greater than the increase in labor costs in the food processing industry.

Changes in the labor component of food marketing costs are closely linked to trends in number of employees, salaries and wages, hours worked, and productivity. Employment in food marketing amounted to 6.2 million workers in 1974, slightly higher than the previous year. In 1975, the number of workers is estimated to have declined slightly, reflecting the slowdown in economic activity and a slight decline in food marketed.

Hourly earnings of food marketing employees averaged about 10 percent higher in 1975 than in 1974. This compares with an increase of 7.6 percent in hourly earnings in the total of private nonagricultural sector of the economy. Wage increases continued to reflect attempts to "catch up" with the general inflation in living costs.

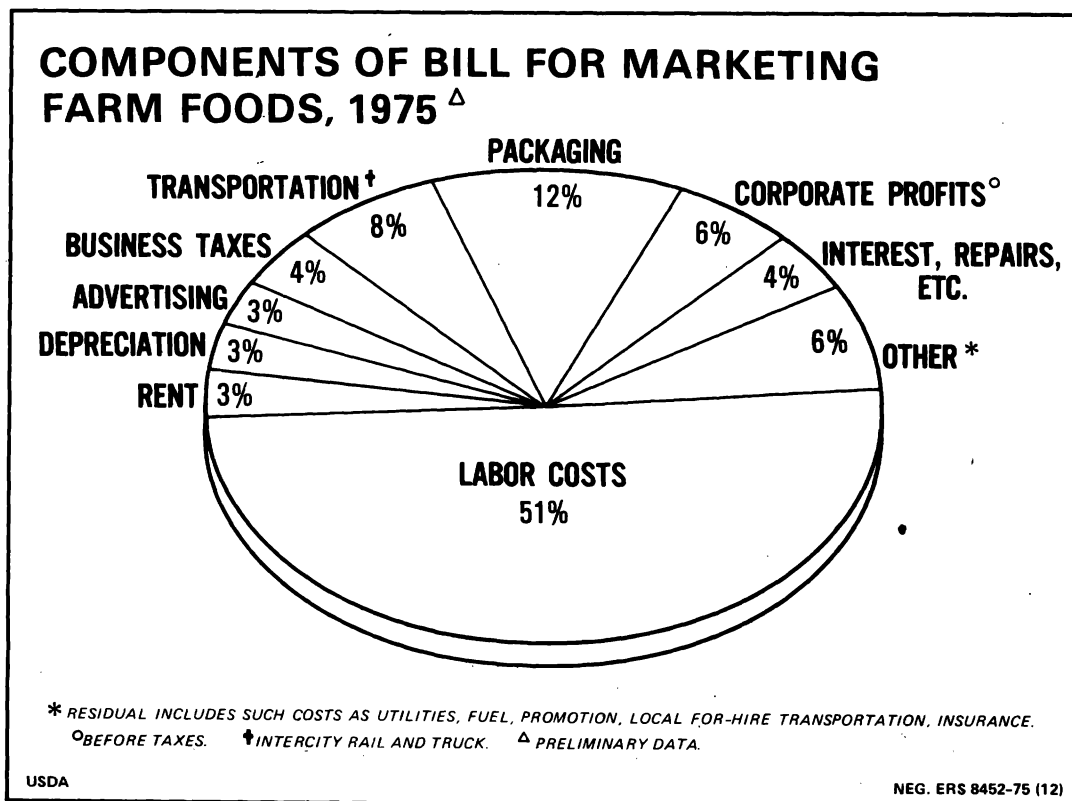


Figure 13

Productivity is the offsetting factor to higher input costs but in recent years there has not been much increase in productivity in food marketing, and thus unit costs have risen rapidly. Data for 1974 show an increase in productivity in food manufacturing of around 3½ percent while retailing and away-from-home marketing posted decreases in output per manhour. Overall, productivity gains offset little of the increase in labor costs in 1974; and unit labor costs in food marketing rose 12 percent.

In 1975, there was a small decrease in manhours of labor used in food marketing as the quantities of food moving through the system continued at around 1974 levels. But there was another large increase in per-unit labor cost, amounting to an estimated 12 percent, because there was little gains in productivity to offset rising labor rates.

Containers and Packaging Costs

Food containers and packaging materials are the second largest cost component of the marketing bill. In 1975, the cost of these materials probably amounted to around \$12 billion, or about 12 percent of the total cost of marketing farm foods.

Cost of food packaging and shipping materials have risen as food companies have paid increasingly higher prices for metal cans, paper products, glass and plastic containers, and other materials. Prices of packaging materials have risen around 40 percent the past 2 years, in part reflecting higher costs of basic raw materials, particularly petroleum products.

Transportation

Truck and rail transportation costs, the third largest component of the food marketing bill, were 12 percent higher in 1975 than in 1974. The cost increase occurred despite a 1-percent decline in the quantity of farm foods marketed. The increase from \$7.2 billion to \$8.1 billion raised intercity transport costs to a new high and followed a record increase of \$1.1 billion in 1974. Thus, transportation cost increases of the last 2 years are adding close to \$2 billion per year to food costs. These estimates do not include air, water, or intracity truck transportation cost increases. Higher costs have increased food transportation expenditures from 7.4 percent of the marketing bill in 1974 to 7.9 percent in 1975.

Railroad rate changes moderated somewhat in 1975 compared with 1974, but there still were several major rate increases. The Interstate Commerce Commission (ICC) considers the financial condition of railroads in authorizing higher rail rates. A 7-percent rise requested to become effective in January was not authorized to become effective until April. Another 5-percent general rate rise, primarily to cover higher labor costs, became effective in June. This was the first stage of a 7.5-percent increase. The second stage of the increase, amounting to 2.5 percent, was allowed to become effective in October. Besides these rate changes, the ICC has permitted railroads to cancel lower rates on some winter grain movements. Higher summer rates now apply year round.

Truck rates have increased but not as uniformly as rail rates. Nevertheless, the upward movement of labor, maintenance, fuel and equipment costs are being reflected in higher truck transportation costs for foods.

Rates for movement of unmanufactured agricultural commodities are not regulated and thus reflect the interaction between equipment supply and demand for service. These unregulated truckers, however, are also forced to raise rates as operating costs go up. Even though the supply of trucks was generally adequate during 1975, limited data suggest that rates of unregulated truckers increased. Finally, operating costs for vehicles operated intercity by food marketing, processing, and distribution firms would have been subject to similar pressures and many such firms probably raised product prices in an attempt to recoup their higher transportation costs.

Corporate Profits

Before-tax profits earned by corporate firms from marketing farm food products in 1975 are expected to total \$5.8 billion, up from \$5.2 billion in 1974. The increase reflects both slightly higher profit rates and larger dollar sales of food products, resulting mainly from higher prices.